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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 001055

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TAGS: [ECON](#) [ETRD](#) [EAGR](#) [ELTN](#) [ENRG](#) [PGOV](#) [IZ](#)
SUBJECT: ECONOMIC IMPACT OF IRAQ'S ONGOING SECURITY
ENVIRONMENT

REF: BAGHDAD 01036

Classified By: Classified by: Economic Minister Counselor Charles P. Ri
es for reasons
1.4(b) and (d)

11. (C) Summary: Post contacts report that the recent Basra security operations have led to economic disruptions throughout Iraq. Basra Province itself has borne the brunt of economic impacts. Supplies of health-related material have been stretched, but the Ministry of Health reports sufficient quantities to meet current needs. Iraqi Relief and Reconstruction Fund projects are reportedly on track. There has only been minimal disruption of essential services like water and electricity, but the period of unrest, and the real possibility of renewal of economically disruptive fighting, reinforces the need for planning and spare parts to mitigate against future cut-offs. Recent problems with the Zubayr-Faw crude oil pipeline further emphasize the overall vulnerability of Iraq's oil-export infrastructure. Security risks at the Basra airport have been an inhibiting factor in economic development in the south. Ongoing violence, economic uncertainty, and problematic access to food supplies are likely to make any efforts to reform the Public Distribution System ration-system more difficult. Post analysis of the situation at Umm Qasr port follows septel. End summary.

Health Issues: Strained Supplies

12. (C) The current situation has strained medical supplies and medicines. However, the Minister of Health reports that his ministry can respond to the current needs. Post will continue to emphasize that the USG is standing by to assist if needed, but that the Ministries of Health (MoH) and Defense (MoD) should take the lead. The MoH has a 24/7 crisis center manned to help coordinate its response. So far, MoH and MoD have been working together to ship the necessary supplies to where they are needed. Post has assisted in arranging for the transfer of patients in Sadr City to other facilities by providing the necessary clearances at check points.

13. (C) At the Basra Children's Hospital, construction is well along the road to completion and Iraq Transition Assistance Office (ITAO) officers expect that the installation of donated equipment will begin in July. However, given the improvised explosive device (IED) attack on Project Hope's Dr. Fox, and the recent fighting, it is possible that donors may not feel comfortable donating the promised 24 million dollars worth of medical equipment. This will be a topic of discussion at an upcoming meeting in Oman of interested parties -- the USG, UNDP, WHO, Project Hope and MoH. (Note: The BCH performed a useful function as a casualty collection point for the GOI during the recent fighting in Basra; the private guard force also did a good job in keeping the site

secured. End note.)

IRRF: No Impact Unless Problems Persist

¶4. (C) The unrest in Basra will likely have little effect on reconstruction programs in the short term. The completion of several major Iraq Relief and Reconstruction Fund (IRRF) projects might be affected if the unrest continues or spreads to other areas since workers and engineers could face difficulty getting to job sites. Some 200 projects are due to be completed between now and the end of September 2008. Projects undertaken by the Gulf Regional Division (GRD) are of particular concern as GRD is expected to be severely restricted in the work it is able to perform in FY-09.

¶5. (C) The Basra military operation may also slow down GOI consideration of the recognition and transfer of capital assets from the U.S. to the Iraqi Government. Prior to the Basra operation, post engaged the Deputy Prime Minister and the Ministry of Finance (MoF) to address the GOI's reluctance to accept these assets. Any loss of authority by incumbent ministers could hinder the process.

Essential Services: Minimal Impact Thus Far

¶6. (C) There has been only minimal impact on the ability of local governments to provide essential services thus far. The Ministries of Electricity, Oil, and Water Resources continue to function. Within the electrical sector, minimal damage was sustained. However, the damage was local and not

BAGHDAD 00001055 002 OF 003

to the national infrastructure. The Ministry of Electricity (MoE) has mobilized emergency repair teams and equipment to repair this damage as soon as they are granted access to the sites where the damage occurred. Humanitarian issues in Basra mainly centered on security concerns that prevented access by the population to essential services.

¶7. (C) Contacts at the Ministry of Water Resources (MoWR) report that there have only been minimal impacts on the water sector. Like the MoE, the MoWR must continue to develop its sustainability programs so that in instances where a critical pump or facility is damaged, they have a plan as well as resources available to minimize the impact on water supply availability.

Violence Highlights Vulnerable Oil Pipelines

¶8. (C) Recent events have highlighted the vulnerability of the Iraqi oil industry and the nation's economy on the flow of oil through the Zubayr-Faw pipeline at Basra to the ABOT offshore oil platform. The single point of failure presented by the current infrastructure exposes a crippling vulnerability. If the existing lines were to be interdicted, the country's income would be greatly reduced and the economy dealt a severe blow. The reasons for development of the Crude Redundancy Project to allow alternative means to export oil have become more compelling. Oil smuggling through pirate pipelines and other methods continues to be a factor limiting optimal crude export.

Transportation Problems: Mainly in Basra

¶9. (C) The impact on transportation infrastructure and assets has been primarily limited to Basra Province with minor fall-out in other regions caused by the inability of employees to get to work due to curfew. Damage to

transportation infrastructure in Basra Province was relatively minor and repairs are underway. Although maritime, rail and civil aviation transportation was suspended, we expect a rapid return to normal with no long-term impact. However, ongoing indirect fire attacks (IDF) at Basra International Airport have had a chilling effect on economic development and civil aviation growth. Corruption and criminal acts by armed militias limit the growth and full utilization of maritime ports. It is not yet clear whether or not a ceasefire will change this dynamic for the better. A comprehensive development strategy for the ports, especially Umm Qasr, needs to be implemented, especially if the ceasefire does not hold.

Unrest Means Continued Reliance on PDS System,
Hampering Private Sector Growth

¶10. (C) Should the GOI retain control of the Port of Umm Qasr and limit/eliminate corruption and the diversion of grain and other commodities imported by the Ministry of Trade for the Public Distribution System (PDS), there could be significant savings for the GOI. (Note: Septel analyzes the likely consequences of the GOI decision to close the Port of Umm Qasr for a month-long corruption investigation. End note.) With continued unrest, however, long-term investments in agriculture by the private sector, both domestic and foreign, will lag. Stifling competition from subsidized Iranian imports and trade barriers imposed by Kuwait will further complicate Iraqi agricultural sector development. This will particularly affect the value-added agro-processing sub-sector. Investors will associate a higher level of risk to investments due to potential for continued unrest, destroyed infrastructure and unstable workforce. In fact, the rural areas where agriculture takes place are desperate for employment and are not the battlegrounds for the militias. Development projects for date palms and tomatoes there have faltered for lack of sustainability and attention to marketing.

¶11. (C) Civil unrest, should it continue, would undoubtedly increase public reliance on the PDS, which supplies over 70 percent of the country's nutrient content. It will also increase resistance to the GOI's proposed reforms of the system, which includes using means-testing and eventually monetizing the food ration. PDS reform is an International Compact with Iraq goal. As a significant portion of the Iraqi diet is provided by the State at highly subsidized prices, the private food retail sector cannot compete in supplying these high volume items, slowing the development of a more modern retail sector.

BAGHDAD 00001055 003 OF 003

Temporary Marketplace Shortages and Price Increases

¶12. (C) Baghdad and Basra markets and market prices were affected by the curfew, leading to temporary price increases and shortages, especially in food and fuel. The curfew, while it lasted, hampered the restocking of goods in shops and markets. Those that could avoided shopping while prices remain high (from three to five times normal prices), but shop shelves appear to have been replenished. PRTs located in other urban centers, with the exception of Basra, report that once the curfew was lifted, business returned to normal. In Basra, as of April 5, however, supplies in markets were lower than normal and some civilians were still reluctant to venture out to markets out of security concerns. In most of Basra, shopping activity appears to have returned to normal, but driving is still difficult. In the Jaysh al-Mahdi strongholds that are surrounded by the Iraqi Army, civilians continue to be reluctant to venture outside.

